noranda

Report of the Annual Meeting
April 24, 1981

ANNUAL MEETING REPORT

This brief report has been prepared for the benefit of shareholders who were unable to attend the Annual Meeting.

The meeting was convened at 2:30 p.m. at the Royal York Hotel, Toronto, with about 700 in attendance. Alfred Powis, Chairman and President of the Company, acted as Chairman. There were 78,435,164 shares or 69% of the total issued shares represented either in person or by proxy.

The Annual Report, including the Auditors' Report, was submitted to the meeting.

The following shareholders who were present, were elected Directors of the Company: James C. Dudley, William James, L. G. Lumbers, T. H. McClelland, D.S. McGiverin, W. Darcy McKeough, D. E. Mitchell, André Monast, Alfred Powis, Antoine Turmel, W. P. Wilder, A. H. Zimmerman.

Clarkson, Gordon & Co., Chartered Accountants, were reappointed auditors.

A. J. Little and Louis Hébert, who retired from the Board, were named Honorary Directors.

The outstanding contribution to the Noranda Group made by D. E. G. Schmitt, Senior Vice-President — Mines, and J. H. Stevens, Chairman and Chief Executive Officer of Canada Wire and Cable, was acknowledged on the occasion of their retirement.

By-law Number 5, to increase remuneration to Directors, was approved by a vote of 76,939,073 shares to 194,008.

Special Resolution Number 4, to increase the authorized capital of the Corporation, creating an additional 5,000,000 preference shares with a par value of $100 each, was approved by a vote of 76,994,511 shares to 138,570.

Questions were asked concerning Noranda's view of Canadian ownership of energy, Noranda's future plans regarding mineral development in Chile, and the disposition, profit and timing of Noranda's 28% interest in B.C. Forest Products.

The meeting adjourned at 3:40 p.m.

NORANDA MINES LIMITED

Remarks to Shareholders
April 24, 1981

Opening Remarks by Alfred Powis

When forecasting results at last year's Annual Meeting, we stated that our best guess was that 1980 would be a satisfactory year in comparison with anything prior to 1979, but that we would do well to equal 1979's earnings per share. For once, we were about right. In absolute terms, earnings of $408 million were slightly higher than the $395 million earned in 1979, but would have been lower except for the Maclaren acquisition and a $47 million profit on the sale of the Australian uranium property. Earnings per share at $4.06 were some 14% less than in 1979 due to the substantial increase in the number of shares outstanding.

Last year started on a buoyant note, with relatively high prices particularly for copper and precious metals. As the year progressed, however, the deepening recession, first in the United States and later in Europe and Japan, began to bite. Two of our main markets, automobiles and housing, were affected with particular severity, and demand and prices for many Noranda Group products weakened erratically throughout the year. Given that results in 1979 were inflated by inventory gains that were largely reversed in 1980, and that earnings were affected by strikes and production problems as well as a deep recession, Noranda's performance was actually better than might have been expected.

There were several reasons for this. Unlike the situation following 1974, Noranda was insulated to some extent by the relatively low value of the Canadian dollar and high prices for precious metals. At the same time, inadequate capacity and strikes prevented the massive world-wide inventory build-up that characterized the previous recession. And finally, Noranda's dramatically improved financial condition mitigated the impact of soaring interest rates. As a result, the 23% drop in earnings per share (excluding the profit on the sale of the uranium property) was in sharp contrast to the 68% decline in 1974-75.

As the result of relatively good earnings and the Maclaren acquisition, Noranda's financial condition continued to improve during 1980. As recently as three years ago, the total of short plus long term debt was $893 million compared with shareholders' equity of $754 million, a ratio of nearly 1.2:1. By the end of 1980, the total of cash plus marketable investments exceeded short term debt, shareholders' equity had nearly tripled to over $2 billion, and the ratio of long term debt to equity had declined to .29:1. Noranda is now stronger financially than at any time since the mid-1960's.

Of the $1.25 billion increase in shareholders' equity since 1977, some $537 million or 43% has resulted from common stock issues and the balance from retained earnings. These stock issues have resulted in more than a 40% increase in the net shares outstanding. This means that, unless the stock issues themselves have resulted in earnings 40% higher than they otherwise would have been, our financial strength has been achieved in part at the expense of diluting the shareholders. In this connection, it is estimated that 1980 earnings per share would have been about 8% higher had none of the various stock issues taken place. In our view, this has been a reasonable price to have paid for improved financial strength, particularly since most of the expected benefits to shareholders lie in the future.

One benefit of our renewed flexibility is that it permits us to make acquisitions in circumstances where they fit our objectives for the future structure of Noranda. The newest acquisition of a 49.8% interest in MacMillan Bloedel is very much in this category, as this superb company will considerably enlarge and strengthen Noranda's presence in the forest industry. At the same time, we cannot help but regret that this acquisition will require that we sever our 12-year association with B.C. Forest Products to satisfy the provincial government's concerns about concentration in the forest industry. However, there is apparently no shortage of potential buyers of our 28% interest in this high-quality company.

In addition, of course, Noranda's renewed financial strength now permits us to further develop the company's operating base through new and expanded mines, increased oil and gas production, and modernized and

expanded metallurgical facilities, manufacturing plants and forest products operations. At the year end, Noranda and subsidiaries were engaged in a number of major projects involving ongoing expenditures of $900 million, and had under study additional projects involving aggregate expenditures of over $1 billion. In addition, major projects being undertaken by affiliates involve ongoing expenditures in excess of $2 billion.

The fundamental purpose of all this activity, of course, is to enhance the underlying value of Noranda shares, but the level of expenditures contemplated will involve some erosion of the company's present financial position. However, we remain determined not to dissipate the financial strength that has been achieved, and are confident that the expenditures can be so scheduled that the ratio of debt to shareholders' equity will not exceed planned limits.

To discuss conditions in Noranda's mining and metallurgical businesses as well as the new developments in that area, I now turn the meeting over to Bill James.

Remarks by William James

As you know from the Annual Report, 1980 was one of the better years for Noranda's mining and metallurgical operations, although results trailed those of 1979 due to some production interruptions and the sluggish economy. Earnings were $272 million down from the record 1979 level of $306 million, despite the sale of the Koongarra uranium property in Australia. Return on net assets was 16.7%.

As mentioned earlier, prices for most metals peaked in the first quarter of 1980, and then fell irregularly during the balance of the year and into the first quarter of 1981. A notable exception to this has been zinc, which declined through the fall but has since recovered to above the levels reached a year ago. While current metal prices appear high in nominal terms, after adjusting for inflation they really are lower than they were during the 1975-77 recession. Because of inadequate capacity, industry inventories have not risen as they did in 1975, and prices should recover quickly when economic growth picks up.

Noranda's mining operations account for about 20% of the production of Canadian copper mines. Generally speaking, they operated at full capacity through the year. Overall production increased 36% because of a full operating year at Mines Gaspé and the inclusion of the Granisle and Heath Steele mines, which were purchased late in 1979. A $35 million modernization project is underway at the Horne smelter, which will both reduce dust emissions and improve productivity and metallurgical performance.

Our zinc operations account for about 30% of Canada's production, and make us the largest mine producer of zinc in the world. Unfortunately, during 1980, they operated below capacity due to the four month strike at Brunswick Mining and Smelting and a six week strike at Mattabi. On the other hand, Canadian Electrolytic Zinc had a record year. Nearly 230,000 tons of refined zinc were produced representing an operating rate of 95% of capacity.

Over the past several years, we have added 130,000 tons of annual metal production in concentrate to our zinc stream at a cost of $125 million. This includes the Brunswick mine expansion, the acquisition of Heath Steele, and development of the Lyon Lake and "F" Group mines. Other major investments underway in zinc are $65 million for upgrading of roasting facilities at Canadian Electrolytic Zinc and shaft sinking at the Mattabi mine.

Last year we highlighted a long list of development projects extending out as far as 1984, which I will now update briefly. During 1980 the Koongarra uranium deposit was sold for a down-payment of $45 million (U.S.) plus an additional $75 million payable on a decision to bring the mine into production. Late last year we decided not to proceed with the Andacollo copper project in Chile because of the inability to structure a favourable $400 million financing package. Noranda will recover its out-of-pocket costs.

Considerable progress was made on several Canadian projects. The Lyon Lake silver-zinc-copper mine in northwestern Ontario came into production last October and the nearby "F" Group mine should start up later this year. Construction began at the Goldstream mine north of Revelstoke, British Columbia. This copper-zinc mine will

commence production at a rate of 1400 tons per day late in 1982 at a capital cost of $62 million. A $70 million expansion of the Central Canada Potash operation is also being planned.

We have several projects underway in the United States. The Lakeshore copper mine in Arizona is behind schedule because of the United States copper strike and the presence of fines in the ore. It is expected to be at sixty percent of capacity by June. The solvent extraction plant to improve copper quality will be completed later this year. At Park City, Utah, the Ontario Project is also over budget and behind schedule because of extremely difficult ground conditions. Because of this and the lower silver price, the ongoing viability of this project is currently under review. Development is continuing at the Hopewell phosphate project in Florida and the Grey Eagle gold mine in California.

Development work is also continuing at the Blackbird cobalt deposit in Idaho, but a production decision has been postponed because of capital costs ballooning to about $220 million and the requirement for a pilot plant test of a refining process developed by Noranda Research. However, the project is economic at today's cobalt producer price of $20 per pound, and because of the strategic importance of this metal we expect the project to ultimately proceed.

Placer Development brought the Equity Silver project in British Columbia into production in September of last year, and is developing the Real de Angeles silver-zinc property in Mexico for production in early 1982. Both of these projects will be very significant silver producers.

In the oil and gas sector, Canadian Hunter had another good year doing what it does well, seeking and finding gas reserves. Reaching export markets for our gas finds is another matter. Development continued in the Deep Basin, particularly in the Elmworth area, and exploration began in the Nechako basin of British Columbia where the initial wildcat hole will test two possible gas-producing zones next month. Production of gas was averaging 57 million cubic feet per day at the end of 1980, and should increase substantially by mid 1981. The focus of Hunter's future growth shifted south during the year as the economics of

exploration are so much better in the U.S. While the National Energy Program did not start Hunter looking in the U.S., it certainly accelerated the move, and a number of very promising prospects have been assembled.

Noranda Research Centre has been in business for some 20 years, and has one of the finest teams of scientists and technologists in the country, led by Dr. Bill Gauvin. The budget for 1981 will be $7 million. Activities at the Centre focus on improvements in production processes, particularly on the metallurgical side, and on the development of new markets for metals produced by the group, especially zinc.

Noranda continues a large scale exploration program for new mineral projects and investments. Noranda will spend directly about $60 million on mineral exploration in 1981, up by one-third over 1980. Adding on-property exploration by the individual mines and the full exploration budget of associates, the Noranda Group will spend a total of $86 million this year. We expect to find something for all that money and effort.

While the immediate outlook for Noranda's mining and oil and gas activities is uncertain to say the least, we are confident that our assessment of industry fundamentals is correct, namely:

> Prices today are low relative to current production costs for the industry.
>
> Prices must rise about 50% on average in real terms to make the best known undeveloped orebodies economically viable.
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> Most of the capacity increases over the past 10 years have come from expansions rather than new orebodies, but there is a limit to how much new capacity can be created in this way.
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> New capacity will be needed to support future economic growth, in addition to which producing mines eventually become exhausted and must be replaced.

These fundamentals suggest that at some point there must be a significant increase in market prices relative to operating and capital costs in order to bring on adequate supplies of metal. We do not know when this will occur, but we intend to be ready to benefit from it. While we wait, we will expand capacity where possible and make sure that we have efficient facilities.

To deal with manufacturing and forest products, I now turn the meeting over to Adam Zimmerman.

Remarks by Adam Zimmerman

Last year produced the best manufacturing results in Noranda's history, with sales of $1.4 billion resulting in an operating profit contribution of $84.2 million, a return on net assets of 12.4%. This represented a confluence of three factors. The first has been our continuing effort at modernization and rationalization to the point where we have very few non-contributors left. The second is the general strength in our product markets, especially aluminum. The third factor, of course, was the lower value of the Canadian dollar, which has permitted a penetration into the export markets by our Canadian companies, while at the same time sheltering domestic markets from imports. Both the Toronto and Montreal manufacturing groups have been able to establish what appear to be significant and permanent export markets.

Since the year-end, the recession has been impacting noticeably on some of our businesses. The aluminum companies in particular, which depend so heavily on sales to the housing and automotive sectors, are experiencing weak prices and volume. We anticipate that sluggish market conditions will continue well into the second quarter, but will show marked improvement thereafter.

On the other hand, wire and cable demand was strong during the first quarter, and sales and profits have exceeded plan. Construction of the Montreal continuous casting project and the Winnipeg fibre optics manufacturing facility are proceeding on schedule, and initial tenders for the redevelopment of the Leaside plant will be issued shortly. The international affiliates continue to make a major contribution to the company's results, and we were pleased

to receive a payment of $1 million from the Export Development Corporation, in settlement of the company's claim against a writeoff of its previous investment in Iran.

Work on the $240 million expansion of the Noranda Aluminum smelter began in February. This, of course, is a major and exciting project, and the management of Noranda Aluminum is to be congratulated for having settled all of the necessary energy, environment and regulatory issues. This project should come on stream at a perfect time. The rolling mill operation has taken a decided turn for the better and the Norandex aluminum building products company is doing extremely well in a difficult market.

The modernization of the Montreal East tube mill of Noranda Metal Industries is progressing within budget and on schedule for completion next month. This company has been saddled with a number of problems beyond the control of its present management, but with the actions taken to rationalize production and update facilities, we believe that we are entering a more prosperous period. In particular, we have entered into a joint venture with Sandvik of Sweden at our special metals division in Arnprior. Sandvik are world leaders in this technology. This joint venture should be able to turn around an unsatisfactory situation and also permit entry into the attractive new field of stainless steel boiler tubing. At the same time, the zirconium tube assets have been sold subject to FIRA approval, and the result of these transactions should be to eliminate a $3 million annual drag on Noranda earnings.

Finally, the activities of Wire Rope Industries continue to be satisfactory in Canada, where we maintain about a two-thirds market share. Some of the facilities are in need of renewal, and this will probably be a project in the ensuing year. Our American affiliate, Bridon American, has not yet performed according to expectation, but it is now a positive contributor to earnings and the prospects are good.

In forest products, Northwood Mills has had its first full year under reorganized management. It has been positioning itself as a major marketer of fibre products, through agencies for the sale of lumber and pulp and paper and a distribution network of major wholesale building and material warehouses in eight locations from coast to coast in Canada.

Maclaren Power & Paper continues to perform well. This company has the opportunity to improve simultaneously its production, efficiency and its environmental impact, and to that end is embarking on a modernization program at its Masson newsprint mill. This is the forerunner of further projects which will result in a 50% increase in production at Masson, followed by a comparable project involving a modernization and expansion of the pulp mill at Thurso. I cannot speak too highly of the management of this company, which continues to outperform the industry and produce a thoroughly satisfactory contribution to the Noranda Group.

Fraser Inc. enjoyed another year of improved profits, although the rate of increase was slowed by a difficult startup of its new Edmundston facility combined with pressure on its lumber and fine paper markets. The last major step in the rehabilitation of Fraser's plants was initiated in March, with the signing of the various agreements for the modernization of the Atholville pulp mill, which is to undergo a comparable transformation to that at Edmundston. Capacity will be expanded by some 20%, but significant energy savings are the basic underpinnings for the economics of this $180 million project.

Northwood Pulp and Timber's results continue to be adversely affected by the depressed lumber markets, although pulp operations have been very good in the last two or three months. The major preoccupation of Northwood, as well as the completion of its waferboard plant in Minnesota, is the major project to double the pulp mill at Prince George. Everything is on schedule and within budget, but it is the finishing off and starting up of projects like this that really sorts the men from the boys. The waferboard project will come on stream when its sister plant in Chatham, N.B. is continuing to struggle with very soft markets, but this should straighten itself out eventually.

As for MacMillan Bloedel, we learned this morning that our bid for 49.8% of the company has been successful, involving an outlay of $500 million in convertible preferred shares and $126.5 million in cash. We believe that the quality of MacMillan Bloedel's assets can be the equal of the best in the world's forest industry, and that the management of these assets has been improving significantly in recent

years. Results in 1981 will probably not be particularly good, and this acquisition may result in a minor dilution in Noranda's earnings per share. However, with the company's present major capital program, results in a year or two should be fairly dazzling.

As a result of our successful bid, we now have a commitment to dispose of our 28% interest in British Columbia Forest Products. Our 12 year association with this excellent company has been both personally rewarding for Noranda's management and profitable for our shareholders, as the original $30 million investment was worth close to $200 million at recent market prices. The proceeds of this disposition, of course, should comfortably exceed the cash component of our bid for MacMillan Bloedel.

I now turn the meeting back to Alfred Powis.

Concluding Remarks by Alfred Powis

In our remarks to shareholders a year ago, we dwelt at some length on Noranda's fundamental objective of achieving a long-term growth rate of 11% in real terms in earnings per share. This is obviously an ambitious target, the achievement of which will require a supportive economic and political environment. In this connection, one statement in these remarks a year ago was that "there is reason to hope that the 1980's will be a period of more stable and predictable relations between the private and public sectors". Quite clearly, this hope has been dashed by the National Energy Program, the implications of which are profoundly disturbing.

It seems clear that the objectives of the program are higher federal revenues, increased Canadian (and particularly state) ownership, and enhanced self-sufficiency — and very much in that order of priority. It also seems clear that pursuit of the first two objectives will make self-sufficiency virtually impossible to achieve.

In terms of security of energy supplies and the general level of business activity in Canada, the program is perverse. In terms of its treatment of foreign-owned companies — which we invited here and which have generally been good corporate citizens — it is harshly

discriminatory and grossly unfair. And in terms of its impact within the private sector on the perception of the government's real objectives and the reliability of its policies, it is enormously damaging.

Ostensibly, the program favours companies such as Noranda which are clearly Canadian owned and controlled. However, the new taxes imposed by the program would reduce the present value of Canadian Hunter's oil and gas reserves by more than 20%. At the same time, the previous tax incentives for exploration and development have been eliminated and replaced by a sliding scale of grants depending on the level of beneficial Canadian ownership. Even if the maximum level of grants is obtained, the after-tax cost of exploration and development is increased. Increasing the cost of exploration and development while reducing the value of any discoveries that are made is a peculiar way to benefit Canadian companies.

Moreover, there is considerable doubt whether many public companies such as Noranda will really be able to qualify for the maximum level of grants. Some 94% of Noranda's shares are registered in Canada, but obviously some of these are held in nominee names for the benefit of foreign owners. We believe that, in reality, between 80% and 85% of Noranda's shares are beneficially owned by Canadians. However, under the Canadian ownership rules as originally proposed, we would have had difficulty in proving even 50% beneficial Canadian ownership. A revised version of these rules was released yesterday, and a preliminary examination indicates that the problem has been somewhat alleviated. However, a Canadian ownership rate will still be produced that is well below the true percentage.

While the National Energy Program has not caused us to lower our sights in terms of fundamental objectives, we must clearly reassess our plans for achieving them. One obvious change is in the Canadian Hunter program, where the thrust of new exploration has shifted to the United States. It should be emphasized that the domestic program has not been abandoned, as Canadian Hunter has a very large acreage position that remains to be evaluated and developed. What it does mean is that, over time, the focus of expenditures will shift to the United States.

Despite this setback, we remain optimistic that our

objectives in terms of growth in earnings per share can be achieved in the 1980's. This optimism is based to a considerable extent on one simple fact mentioned earlier — that the prices of many products of the Noranda Group have been (and remain) far below the levels needed to justify new capacity.

Sooner or later (and for some of our products we suspect it will be sooner) prices must recover to these levels, in which case the earning power of Noranda's existing facilities will be enormously enhanced.

In spite of the fact that we have been living with high rates of inflation for some time, its real impact is not well understood. For example, present prices for copper, zinc or pulp seem reasonably high on a historic basis. The fact is that, in constant U.S. dollars, current prices for nearly all of Noranda's major commodity products are substantially lower than in 1976-77, during the depths of the previous recession.

There is a clear need for new capacity in many of our products, as evidenced by the fact that inventories have not built up to any great extent during the current recession. An economic recovery of any real strength is likely to result in shortages in a number of key areas. The long years of perverse government policies and depressed economic conditions, coupled with the extreme difficulty in financing large projects involving a long lead time in an inflationary environment, are about to catch up with us.

This obviously presents Noranda with opportunities, which our renewed financial strength will permit us to take advantage of in pursuit of our earnings targets. The various projects you have heard about today are a part of this strategy. If we are right, the combination of enhanced earnings from existing operations and the contribution from new projects should allow us to achieve our goals, although with considerable fluctuation around the trend line.

However, we are off to a slow start in 1981 as we struggle through what seems to be the worst of the recession. Markets for virtually all products are soft, with even aluminum (a bright spot last year) having finally been affected. Various production problems, partly associated with extreme cold weather in January, have affected mining

and metallurgical results in particular. In addition, natural gas deliveries from the Elmworth field have been at only half planned levels due to a delay in the completion of a compressor station by the pipeline company. As a result, mining and metallurgical earnings in the quarter were less than half of 1980 levels, while manufacturing earnings were 33% lower. Forest products results were slightly better and net borrowing costs were substantially reduced. Overall, earnings during the quarter were 60¢ per share compared with $1.04 a year earlier. At their meeting this morning, your directors declared a quarterly dividend of 35¢ per share, payable June 15 to shareholders of record May 15.

While we do not expect that 1981 will be a vintage year for Noranda, we believe that earnings over the balance of the year should be better on average than those of the first quarter. In particular, the zinc market is showing signs of strength, and a substantial increase in natural gas revenues is projected for the second half as the pipeline bottleneck is eliminated. However, on the assumption that weak economic conditions and high inflation rates will persist for a while yet, our best guess at the moment is that 1981 earnings will be lower than in 1980, with the decline concentrated in the first half. If we are right, earnings this year will obviously be below our target trend line.

However, if an economic recovery does begin in the OECD countries during the second half, we should be back on track in 1982. The lack of capacity referred to earlier could begin to be felt rather quickly, with zinc and copper being affected first, and prices could strengthen dramatically. Most importantly, we have in place throughout the organization a group of loyal, dedicated and highly effective employees, an asset which will enable us to take advantage of the opportunities ahead. Thus, while we do not expect great things in 1981, we are optimistic about 1982 and beyond.